

## How to associate North Korea Nuke problem and Dow New high interplay?

First hold one's bat short and shake it without straining yourself.

Positive and negative factors are both in line. When you cannot immediately grasp the positive side just return to basics. However returning to basics or what equities investment textbooks say is not applicable to current situation then use your common sense. Taking as an example baseball or golf, a nice swing is not based on strength. A smooth swing is much more efficient to perform a long shot, with luck and a nice hit you can throw the ball at unexpected distance. This works both ways: offensive and defensive mood.

Market's reaction is obviously not stated in textbooks, because you may be late one or two steps it is necessary not to miss the flow. Market participants are surprisingly researching hard when taken into the course of events but only a few show swift reactions. This pattern is reflected in stock prices and volumes. When the situation is unclear investors usually wait and see until excessive volatility comes to a halt. North Korean nuke affaire is a perfect illustration of such pattern; a lot of those concerned just nervously guessed what would be the influence and concluded it was not that important.

When a market trend materializes first stage and middle stage movements react to fundamentals and external factors and it is no good policy to act against it. However some tricky phenomenons occur when shifting from middle stage to last stage (this relates to Elliot Waves theory third peak wave until the last downside fifth wave). You need to act with flexibility even though you may feel it goes according to your own ideas, prices volatility = increased risk taking. Current worldwide markets are exactly in the midst of such psychology.

My personal conclusion is that it is ok to hold above average positions but being too greedy will not lead to big gains. Too small a number of stocks lead main indexes, in addition more than half stocks are still down compared to August September highs. The fact that TOPIX cannot renew previous September's high is a flat liner. Large caps that led the market up to now are becoming top heavy. Most of these stocks rose indiscriminately and are reaching their upward limit; gap differential with the average is far stretched.

It is difficult to expect further expansion in the near future therefore buying will shift to stocks left behind or revising upward their earnings. Market will also focus on stock buy backs; dividend increase and M&A related stories. There is more than enough potential in such fields.

This is a sunset that does not think easily.

On the supply demand side front foreigners are still buying against Japanese individuals selling and stock market is not in a mood to jumpstart. Most of the active individual investors are 'wounded' short term players therefore from a long term investor's point of view they cannot chase prices higher. However I believe that the profits realized on large capitalisations will not leave the market but rather shift to first section stocks left behind or stocks with a story behind.

Reading main indexes daily movement the 3 to 5 months middle cycle that started the 14<sup>th</sup> of June ended in September and we have entered a new cycle. Normally this implies 2 months upward movement leading to a new high by the second half of November. For now stocks will not go much higher nor fall back much.

However after a correction market shall test higher levels. I cannot confirm at 100 % but June low could well be the bottom of the 3 years cycle that started 3 years ago. In such a case we have entered a new 3 years cycle since 4 months only, current cycle's peak is far ahead still and we can date it from autumn 2007 up to mid 2008.

However main market core stocks and new growth markets are experiencing opposite trends. I feel cyclical and natural resources related stocks will be bought again, recently price movements totally differ according to which sector they belong therefore when deciding investment stance on individual stocks I do not think current TOPIX nor Nikkei 225 cycle should be that deep therefore no need to stick to it.

Provided there are no unforeseen events linked to forex, oil prices and US economy, its is now widely admitted that US economy is slowing down in an orderly manner. Clearly housing investments peaked out and soon consumption should feel the pain. However companies' earnings decrease should not lead to recession and keep above a certain level despite the slowdown. Japanese companies obviously should follow the same pattern later. Investment in equipment boom may have reached a peak but it will take a while before really flowing backward and positive sentiment will also not easily go down. There is enough pocket money left for children to play on the tables (this is an old story in Japan.).

What I am not sure 100 % is above mentioned worldwide economy status. Of course should US economy slows more heavily or the US \$ fall then one cannot put forward such a positive scenario.

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